

hostile transaction, while avoiding risks incident to such a transaction, may prevent it from investing in securities which would otherwise be suitable investments for them, thereby hindering the achievement of their investment objective.

**Management:**

*The Investment Adviser.* Equitable Capital will serve as investment adviser (the "Investment Adviser") to each Fund with the responsibility of identifying, managing and liquidating the Funds' portfolio investments, subject to certain guidelines and limitations described herein. Equitable Capital, an indirect wholly-owned subsidiary of The Equitable Life Assurance Society of the United States ("Equitable Life"), specializes in fixed income and equity portfolio management.

Equitable Capital has approximately \$31 billion in fixed income and equity assets under management and is a leading participant in the leveraged buyout financing market. Equitable Capital has extensive experience in participating in leveraged buyouts, leveraged acquisitions and leveraged recapitalizations and other enhanced yield transactions. Equitable Capital is also the investment adviser to the Equitable Deal Flow Fund, L.P. (the "Deal Flow Fund"), a limited partnership made available by private placement to certain institutional investors. The Deal Flow Fund invests in the types of securities constituting Mezzanine Investments. See "Management—Equitable Deal Flow Fund, L.P."

*The Managing General Partner.* Equitable Capital will also act as managing general partner (the "Managing General Partner") of each Fund. Equitable Capital, as Managing General Partner, will have overall responsibility for the management of each Fund's business and administrative affairs. Equitable Capital will enter into administration agreements (the "Administrative Agreements") with ML Fund Administrators Inc., an affiliate of MLPF&S (the "Administrator"), pursuant to which the Administrator will provide certain day-to-day administrative and operations management of the Funds and the accounts of the limited partners of the Funds.

*The Administrator.* ML Fund Administrators Inc. is a Delaware corporation, an indirect wholly-owned subsidiary of Merrill Lynch & Co. and an affiliate of the selling agent. The Administrator will provide administrative services to each Fund and will coordinate investor relations services for such Fund on behalf of Equitable Capital. The Funds' investor relations representative is accessible at (212) 449-2006 during business hours.

*The Independent General Partners.* Each Fund will initially have two Independent General Partners who will be the same individuals for both Funds. Prior to the first Closing, each Fund may admit a third Independent General Partner. The Independent General Partners of a Fund will supervise such Fund generally and Equitable Capital in its role as investment adviser and Managing General Partner. See "Management Arrangements—The Independent General Partners".

**Business Plan:**

*Identifying Enhanced Yield Investments.* Equitable Capital, as Investment Adviser to the Funds, is responsible for locating and developing investment opportunities for their benefit. Equitable Capital has developed relationships with many sponsors of leveraged buyout transactions and has historically had access to transactions in excess of the investment capacity of Equitable Life and its affiliates. There can be no assurance, of course, that this level of access will continue in the future. To the extent Equitable Capital's access to Enhanced Yield Investments diminishes, the Funds' ability to become invested may be adversely affected.

The Partnership Agreements give the Funds together the right to a significant share of all Enhanced Yield Investments in which an Equitable Affiliate invests and which meet the Funds' investment objective and policies, until the Funds are initially fully invested. (See "Investment Objective and Policies—Coinvestments".)

The Funds are closed-end funds and each expects to make its initial Enhanced Yield Investments during the first three years from the date of the Final Closing (the "Investment Period") and have invested 65% of its assets by the end of the two year period beginning on the date of this Prospectus (the "Interim Investment Period"). Any remaining capital contributions to a Fund which have not been initially invested or committed for investment in Enhanced Yield Investments within the Investment Period, to the extent not utilized or reserved for operating expenses or Follow On Investments, will be distributed to the partners of such Fund as soon as practicable after the end of the Investment Period. However, any net offering proceeds invested in Enhanced Yield Investments which are liquidated during the Investment Period may be reinvested in Enhanced Yield Investments within the period ending on the later of the end of the Investment Period or the twelve-month period following such liquidation (the "Reinvestment Period"). Any portion of such proceeds not so reinvested or committed for reinvestment, to the extent not utilized or reserved for expenses or Follow On Investments, will be distributed to such partners as soon thereafter as practicable. Further, if after the Interim Investment Period, less than 65% of a Fund's assets has been invested or committed for investment in Enhanced Yield Investments, such Fund will make a distribution of capital to its Partners (or, in the case of the Enhanced Yield Fund, pay down outstanding debt) so that, after such distribution (or repayment), at least 65% of all remaining assets is invested or committed for investment in Enhanced Yield Investments.

*Portfolio Companies; Managed Companies and Non-Managed Companies.* Each Fund will make Mezzanine and Other Investments in Portfolio Companies consisting of "Managed Companies" and "Non-Managed Companies". For each Fund a Managed Company is a Portfolio Company to which such Fund, Equitable Capital or other persons in the investor group of which such Fund is a member make available significant managerial assistance. See "Investment Objective and Policies—Managed Company Transactions".

With respect to any Fund, a Non-Managed Company is a Portfolio Company to which none of Equitable Capital, such Fund, any affiliate thereof or any member of the investor group of which such Fund is a member makes available significant managerial assistance.

Under the Investment Company Act, a Fund may not invest in a Non-Managed Company unless, at the time such investment is made, at least 70% of such Fund's assets are invested in Managed Companies and in certain qualified Temporary Investments.

*Guidelines.* The Independent General Partners and Equitable Capital have approved certain guidelines (the "Guidelines") for Mezzanine Investments and Other Investments in Managed and Non-Managed Companies. For a full description of the Guidelines see "Managed Company Transactions" and "Non-Managed Company Transactions" under "Investment Objective and Policies".

The Independent General Partners of a Fund must approve such Fund's purchase of a Mezzanine Investment or Other Investment in advance by determining either that such investment meets the Guide-

lines, or, if it does not meet the Guidelines, that the proposed terms of the transaction, including the consideration to be paid by each party thereto, are reasonable and fair to such Fund and that the proposed transaction is consistent with its investment objective and policies, does not involve overreaching by any party to the transaction and is consistent with the interests of the Limited Partners of each Fund. Bridge Investments must be approved by the Independent General Partners in the same manner, and subject to the same standards, as Mezzanine Investments and Other Investments not meeting the Guidelines.

The Guidelines have been designed based on the current and overall returns currently sought by Equitable Capital in structuring and purchasing investments similar to Mezzanine Investments and Other Investments. The Guidelines are intended to be flexible to adapt to changing market conditions and can be modified with respect to a Fund only with the approval of such Fund's Independent General Partners and the SEC. There can be no assurance that Enhanced Yield Investments meeting the Guidelines will be available to Equitable Capital and the Funds for investment, nor can there be any assurance that Enhanced Yield Investments meeting the Guidelines will actually yield the returns set forth in the Guidelines. Moreover, as stated above, Enhanced Yield Investments which do not meet the Guidelines may be acquired with the approval of the Independent General Partners. Consequently, there can be no assurance as to what proportion of the Enhanced Yield Investments of either Fund will meet the Guidelines.

The Guidelines for Managed Companies require, among other things, that if an Equitable Affiliate invests in an Enhanced Yield Investment in which a Fund also invests, such Fund will hold securities of every class issued by the Portfolio Company that are acquired by such Equitable Affiliate in the same proportions as such Equitable Affiliate (except with respect to loan participations in senior bank debt). The terms of such purchases will be identical in all material respects. The Guidelines also require that each Mezzanine or Other Investment must have a projected minimum all-in-yield, including the proceeds projected to be generated upon the sale of any equity component but excluding certain purchases of senior and senior subordinated debt, of 750 basis points in excess of the Merrill Lynch High Yield Master Bond Index. The Guidelines further provide that each Mezzanine and Other Investment must have a minimum projected coupon and dividend yield as well as a minimum projected current cash return and an equity component.

All of the Guidelines applicable to Managed Companies also will be applicable to investments in Non-Managed Companies. In addition, the Guidelines require that the Funds may not, in the aggregate, purchase more than 50% of a Mezzanine or Other Investment issued by a Non-Managed Company and that at least 25% of each class of security constituting part of such a Mezzanine or Other Investment purchased by a Fund must be purchased by one or more substantial institutional investors which may be Equitable Affiliates.

*Follow On Investments.* Following an initial investment in an Enhanced Yield Investment, each Fund may either be called upon to provide additional funds to a Portfolio Company in order to preserve such Fund's proportionate ownership when a subsequent financing is planned or to protect the Fund's investment when such Portfolio Company's cash flow does not meet expectations, or a Fund may have the opportunity to increase its investment in a successful Portfolio Company (a "Follow On Investment"). Such investment may be

made by purchasing newly issued debt and/or equity securities or by exercising rights under securities acquired (such as warrants) upon making the initial Enhanced Yield Investment.

If an Enhanced Yield Investment, taking into account any proposed Follow On Investment, continues to satisfy the requirements of the Guidelines, Equitable Capital will certify to that effect to the Independent General Partners before a Fund makes such a Follow On Investment. If the Enhanced Yield Investment, taking into account the Follow On Investment, does not meet the Guidelines, the Follow On Investment will be subject to prior approval by the Independent General Partners using the same standards as will be used to evaluate Mezzanine and Other Investments not conforming to the Guidelines.

*Liquidation of Enhanced Yield Investments.* Based upon factors such as a Portfolio Company's subsequent performance, its value, financial market opportunities and the regulatory restraints under which the Funds will operate, Equitable Capital may determine to liquidate an Enhanced Yield Investment. A Fund may liquidate only certain classes of securities held as part of an Enhanced Yield Investment. For example, it may sell common stock in a Portfolio Company while retaining the subordinated debt or preferred stock portion of such investment which may be liquidated at a later time, or may be held and paid down through normal amortization in accordance with its terms.

The Funds will dispose of securities held by them on a proportionate basis, and on the same terms and conditions (a "lock step" disposition) with each other. If a Fund or any Equitable Affiliate proposes to dispose of any security purchased in a coinvestment by such Fund with an Equitable Affiliate, each Fund and any Equitable Affiliate holding such security will participate in the sale of such security on a lock step basis unless Equitable Capital recommends to each Fund that it not participate in such a sale or not participate on a lock step basis. If Equitable Capital does not recommend a lock step disposition then notice of the proposed sale will be given to the Independent General Partners of each Fund who will determine whether it should participate in such sale and whether such participation, if approved, will be a lock step disposition or on some other basis.

#### **Allocation of Investments:**

As noted above, the Funds will coinvest with each other and expect to coinvest with Equitable Affiliates, subject to certain limitations and exceptions as described under "Investment Objective and Policies—Coinvestments". The allocation of Enhanced Yield Investments among the Funds and the Equitable Affiliates as a general matter will be made in proportion to a ratio based on the amount of capital which each such entity has indicated is available for investment in Mezzanine, Other or Bridge Investments, as the case may be. However, under the Partnership Agreement, the Funds together will have the right in the aggregate to an allocation of at least 50% of any Enhanced Yield Investment available to Equitable Capital which meets the Funds' investment objective and policies until each Fund first becomes 75% invested in Enhanced Yield Investments and the right to an allocation of at least 25% of any such investment thereafter.

Equitable Capital will provide the Independent General Partners with information concerning the amount of capital which the Equitable Affiliates have available for investment in order to assist the Independent General Partners with their review of the Funds' investments for compliance with the allocation provisions described herein.

Enhanced Yield Investments will be allocated between the Funds based on the ratio of Available Capital of each Fund. During the first

two years of the Investment Period the ratio will be determined as if the Enhanced Yield Fund had borrowed an amount equal to 50% of its Net Proceeds Available for Investment (as defined under "Estimated Use of Proceeds") and thereafter will be made based on actual borrowings made by such Fund, if any. This allocation formula is designed to provide that the overall allocation of Enhanced Yield Investments to the Enhanced Yield Fund, which has the right to borrow up to 50% of Net Proceeds Available for Investment, is made so that the allocation of investments between the Funds remains as constant as practicable throughout the term of the Funds and so that the portfolio of Enhanced Yield Investments made by each Fund will be as similarly constituted as possible. To the extent the Enhanced Yield Fund's actual leverage deviates from the assumption above, the allocation formula may not result in each Fund's coinvesting with the other Fund for its entire portfolio of Enhanced Yield Investments.

Certain Equitable Affiliates will have similar rights to purchase an allocable portion of an Enhanced Yield Investment subject to the Funds' allocation rights. See "Investment Objective and Policies—Coinvestments" and "Conflicts of Interest".

**Risks:**

The purchase of Units involves a number of significant risk factors. Investments in leveraged buyouts, acquisitions and recapitalizations involve a high degree of business and financial risk that can result in substantial losses. Further, the investment policies and restrictions of each Fund permit its capital to be invested in a relatively limited number of portfolio investments (however, in no fewer than eight in the event such Fund becomes fully invested in Mezzanine and Other Investments), thus potentially exposing it to a greater risk of loss than would be the case if the Fund diversified into more investments. See "Risk and Other Important Factors". Prospective investors should also see the information set forth under "Conflicts of Interest".

In addition, investments in limited partnerships such as the Funds involve certain structural risks and tax risks. See "Certain Federal Income Tax Considerations".

Furthermore, the Units are illiquid. There is no public market for the Units, and there are restrictions contained in the Partnership Agreement relating to each Fund which are intended to prevent the development of a public market. Such transfers of interests in a Fund as are permitted will only be recognized quarterly. See "Transferability of Units" below.

**Distributions:**

*Current Returns.* All cash dividends, interest and other income received by a Fund in excess of expenses of operation and reserves for expenses and Follow On Investments will be distributed to the Limited Partners of such Fund and to Equitable Capital, as the Managing General Partner, quarterly, within 45 days after the end of each calendar quarter, as follows:

(a) From *Enhanced Yield Investments*,

first, 99% to such Limited Partners and 1% to Equitable Capital, until such Limited Partners, as a class, have received from cumulative distributions from Enhanced Yield Investments then or theretofore made by such Fund (other than as a return of capital), an amount equal to the sum of (i) an aggregate return (cumulative but not compounded) of 10% per annum on the average daily amount of Gross Capital Contributions represented by Enhanced Yield Investments (the "Priority Return"), and (ii) any outstanding Compensatory Payment (as defined below),

*second*, 70% to such Limited Partners and 30% to Equitable Capital (29% being an "Incentive Distribution") until Equitable Capital has received from all distributions with respect to Enhanced Yield Investments then or theretofore made by such Fund (other than as a return of capital), an amount equal to 20% of all such distributions, except that if there are any outstanding Deferred Distribution Amounts (as defined below), such distribution will, to the extent permitted by the Partnership Agreement, first be made solely to Equitable Capital until such amount is distributed to it, and

*third*, thereafter, 80% to such Limited Partners and 20% to Equitable Capital (19% being an Incentive Distribution).

(b) From all other sources (other than as a return of capital), 99% to such Limited Partners and 1% to Equitable Capital.

*Capital Transactions.* After the Investment Period all proceeds from the disposition of Enhanced Yield Investments and Temporary Investments by a Fund, including distributions of returns of capital from investments, and proceeds of any financing ("Capital Transactions"), that are not utilized or reserved for Follow On Investments and, prior to the expiration of any remaining Reinvestment Period with respect to Enhanced Yield Investments liquidated in the Investment Period, for Enhanced Yield Investments, or used to pay, or reserved for the payment of, outstanding debts or expenses of such Fund, will be distributed as soon as practicable after such Capital Transactions as follows:

(a) From *Enhanced Yield Investments*,

*first*, 99% to the Limited Partners of such Fund and 1% to Equitable Capital, until such Limited Partners, as a class, have received from cumulative distributions from Enhanced Yield Investments, an amount equal to the sum of (i) the Priority Return and (ii) any outstanding Compensatory Payment,

*second*, to the Managing General Partner and the Limited Partners, as a class, of such Fund in proportion to their respective "Net Capital Contributions" (Capital Contributions net of selling commissions and organizational, offering and marketing expenses paid by such Fund) until the Limited Partners of such Fund, as a class, have received from cumulative distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Enhanced Yield Investments then or theretofore liquidated and not reinvested plus an amount equal to the sum of (i) the Priority Return and (ii) any outstanding Compensatory Payment, except that if there are any outstanding Deferred Distribution Amounts, such distribution will, to the extent permitted by the Partnership Agreement, first be made solely to Equitable Capital until such amount is distributed to it,

*third*, 70% to such Limited Partners and 30% to Equitable Capital (29% being an Incentive Distribution), until Equitable Capital has received from all distributions made by such Fund with respect to Enhanced Yield Investments, then or theretofore made, 20% of all such distributions (other than as a return of capital), and

*fourth*, thereafter 80% to such Limited Partners and 20% to Equitable Capital (19% being an Incentive Distribution).

(b) From all other sources,

*first*, to the Managing General Partner and the Limited Partners, as a class, of such Fund in proportion to their respective Net Capital Contributions until the Limited Partners of such Fund, as a class, have

received from cumulative distributions other than distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Temporary Investments then or theretofore liquidated and not reinvested, and

*second*, 99% to such Limited Partners and 1% to Equitable Capital.

For purposes of the distributions described above, with respect to a Fund, "Net Capital Contributions represented by Enhanced Yield Investments" is the amount of such Fund's capital invested in Enhanced Yield Investments multiplied by the fraction of its total Available Capital (including, with respect to the Enhanced Yield Fund, capital supplied by borrowing) represented by Capital Contributions from the Limited Partners of such Fund. "Gross Capital Contributions represented by Enhanced Yield Investments" is such amount grossed up for the related selling commissions and the full amount of any discount in selling commission, marketing and sales expenses and organization and offering expenses of the Fund, without regard to selling discounts or waivers of selling commissions.

Equitable Capital will make certain payments to each Fund ("Compensatory Payments") in an amount equal to the cumulative amount by which cumulative net proceeds received from the disposition of Enhanced Yield Investments held by such Fund are less than its cost of such investments, but only to the extent of cumulative Incentive Distributions previously received by Equitable Capital from such Fund. See "Distributions and Allocations".

In addition, to the extent that making any distributions from the proceeds of any Capital Transaction would result in Equitable Capital's receiving cumulative distributions from a Fund relating to the disposition of Capital Transactions in excess of 20% of the cumulative capital gains realized by such Fund (net of realized capital losses and unrealized net capital depreciation), such distribution will instead be deferred (the "Deferred Distribution Amount").

Distributions to Limited Partners of a Fund will be allocated among such Limited Partners in proportion to the respective number of Units held by such Limited Partners of such Fund.

If a Fund holds more than one closing for the sale of Units (see "Offering and Sale of Units"), net income and capital gains from investments earned by a Fund subsequent to a closing and before the next closing will be distributed among the Partners of the Fund as of the time such income was earned or realized. Prior to the admission of any new Limited Partners to a Fund, to the extent cash is available for distribution, the Fund will distribute to the existing Limited Partners all realized income and gain. In addition, to the extent the per Unit capital accounts of Limited Partners of a Fund whose Units were purchased at different Closings differ in amount, one or more special cash distributions to certain Partners may be made to equalize the per Unit capital accounts of all Limited Partners of such Fund. See "Distributions and Allocations". As soon as possible after a Fund's termination, Equitable Capital or a liquidating trustee will liquidate such Fund and its Partners will receive a liquidating distribution of the remaining assets of such Fund based upon their allocable share thereof.

All cash distributions to Limited Partners whose subscriptions were solicited by MLPF&S or a Selected Dealer whose accounts are cleared through Broadcort Capital Corporation will be credited to such Limited Partners' customer securities accounts maintained with

MLPF&S or such Selected Dealer. Other Limited Partners will have, and Limited Partners who choose not to have their distributions credited to their accounts will be given, the opportunity to instruct the Administrator to have distributions sent to them directly.

**Allocation of Profits and Losses:**

Profits and Losses for tax purposes will be determined and allocated as of the end of each calendar year. Profits and Losses will be allocated first to reflect cash distributions made or scheduled to be made (other than as to distributions of capital), and thereafter in a manner designed to reflect cash distributions projected to be made. See "Distributions and Allocations".

Because it is not anticipated that either Fund will be treated as engaged in a trade or business for purposes of the passive activity loss rules, Profits and Losses for tax purposes are not expected to generate passive activity income or losses under these rules. Therefore, a prospective investor should not invest in either Fund with the expectation of using the income or gain derived therefrom to offset losses from passive activities. See "Certain Federal Income Tax Considerations".

**Fees and Expenses Payable by the Fund:**

The Funds will pay an aggregate amount not to exceed \$6,000,000 in offering and organizational expenses in connection with this offering, and will reimburse Equitable Capital, the Administrator and their affiliates for such expenses paid on behalf of the Funds. Any organizational and offering expenses of the Funds in excess of this amount will be paid by Equitable Capital or an affiliate. The Funds will also pay actual marketing and sales expenses of MLPF&S in connection with this offering in an amount not to exceed 1/2% of the public offering price of the Units sold. Offering and organizational expenses and marketing expenses will be allocated between the Funds in proportion to the number of Units sold by each Fund. Such expenses will be accrued on the books or paid by the Funds at each closing of the sale of Units.

Following commencement of the Funds' operations, Equitable Capital, as the Managing General Partner, will receive an administrative fee (the "Fund Administration Fee") from each Fund equal to an annual amount equal to the greater of (x) 1% of the gross offering price of the Units in such Fund but not greater than \$500,000 (the "Minimum Fee") and (y) .45% of the amount of Net Proceeds Available for Investment (as defined under "Estimated Use of Proceeds"), of such Fund subject to certain adjustments after the fourth year of operations. The Fund Administration Fee will be calculated and paid quarterly in advance. Equitable Capital, as the Managing General Partner, will be responsible for all ordinary administrative expenses, except for certain extraordinary fees and expenses, of each Fund and will not be separately reimbursed for such administrative expenses.

The Fund Administration Fee payable by each Fund will be assigned to the Administrator for its services under each Administrative Agreement. The Administrator will be responsible for the payment of all ordinary operating expenses of the Funds, including payment of the fees and expenses of the Funds' custodian and their independent accountants but excluding those extraordinary fees and expenses referred to above. The Administrator, on behalf of Equitable Capital, will provide the Funds, at the Administrator's expense, with office space, equipment and personnel.

Pursuant to investment advisory agreements between Equitable Capital and each Fund (the "Investment Advisory Agreements"), each Fund will pay a quarterly fee (an "Investment Advisory Fee") at the



annual rate of 1.0% of such Fund's Available Capital, with a minimum annual aggregate payment for the Funds combined of \$2,000,000 (apportioned between the Funds in proportion to the number of Units of each Fund outstanding), subject to reduction for any amounts distributed by such Fund to Equitable Capital, as Managing General Partner, from Temporary Investments and for a portion of certain deductible fees, as described below. The Investment Advisory Fee will be calculated and paid quarterly in advance.

Equitable Capital, in the course of arranging and structuring leveraged buyouts and recapitalizations, expects to receive certain transaction, commitment, "break-up" and similar fees from Portfolio Companies or potential borrowers. The Investment Advisory Fee payable by a Fund to Equitable Capital will be reduced by an amount equal to 80% of any such fees allocable to securities purchased by such Fund or to commitments for the purchase of securities issued by such Fund.

Equitable Capital will bear the ordinary operating expenses of each Fund relating to such Fund's portfolio investments, including the expenses of investigating investment opportunities, structuring and financing Enhanced Yield Investments and monitoring Portfolio Companies. Each Fund will incur its pro rata share of all expenses of third parties, such as legal counsel, appraisers and independent business consultants, hired or used by Equitable Capital in connection with the investigation, negotiation, purchase, holding and sale of Enhanced Yield Investments and any registration fees incurred in connection with any such sale to the extent such costs are not, as is typically the case, paid by the Portfolio Company.

**Transferability of Units:**

Interests in each Fund will be accounted for on the books of such Fund in accordance with Delaware law.

The Units are illiquid securities. There is no public market for the Units and there are restrictions contained in the Partnership Agreement relating to each Fund which are intended to prevent the development of a public market. See "Risk and Other Important Factors". Transferability of any Unit in either Fund is also subject to certain restrictions as to the suitability of the transferee. In addition, Units in the Enhanced Yield Fund may not be purchased or otherwise acquired by or on behalf of a Tax-Exempt Investor. Furthermore, Equitable Capital, as Managing General Partner, has the authority to amend the transferability provisions of either Partnership Agreement to the extent necessary (and, in the case of the Enhanced Yield Fund, to the extent desirable) to preserve the tax status of a Fund or, in the case of the Enhanced Yield Retirement Fund, to preserve certain exemptions under ERISA. See "Transferability of Units", "Summary of the Partnership Agreement" and "Certain Federal Income Tax Considerations".

**Terms of the Offering:**

This offering will terminate no later than September 30, 1988, or such subsequent date as may be permitted by the staff of the Securities and Exchange Commission, but not later than May 31, 1989, as MLPF&S, Equitable Capital and the Funds may determine (the "Termination Date"), except that unless acceptable subscriptions for 75,000 Units in the Funds are received by the Termination Date, no Units in either Fund will be sold, and all funds received from investors with respect to the Funds will be refunded promptly. In the event that by the Termination Date Units for both Funds in the aggregate equal in number to or in excess of 75,000 have been subscribed for but that fewer than 25,000 Units have been subscribed for with respect to a Fund, the Units in such Fund will not be sold and funds received from investors with respect to such Fund will be refunded promptly. If, after

deducting such Units from the aggregate amount sold, fewer than 75,000 Units have been subscribed for in the other Fund, such other Units will also not be sold and funds received with respect thereto will be refunded.

If acceptable subscriptions for at least 75,000 Units in the Funds (after taking into account the per Fund minimum of 25,000, as described above) are received by the Termination Date, and the other conditions precedent to closing are met, there will be a closing of the sale of Units in the Funds (a "Closing"). The staff of the Securities and Exchange Commission is currently looking into the question of whether more than one closing of offerings of securities of the type offered hereby is permissible under the Federal securities laws. Pending a determination by the staff on this question, each Fund anticipates having only one Closing which, in each case, shall be within 90 days of the date of this Prospectus. Should a determination that more than one Closing is permissible be made by the staff within 90 days of the date of this Prospectus, the Funds reserve the right to have additional Closings at such times, and for such number of Units, as the Funds and MLPF&S deem appropriate. There can be no assurance that there will be more than one Closing. The Final Closing for a Fund (the "Final Closing") will take place no later than 15 business days after the Termination Date. The other conditions to any Closing include the receipt by the Funds by the first Closing of an exemptive order from the SEC concerning coinvestments with Equitable Affiliates, the receipt at each Closing by the escrow agent of full payment of the purchase price of the Units being sold at such Closing, the delivery at each Closing by Equitable Capital of its capital contribution to each Fund required by the Partnership Agreement and the delivery or reaffirmation at each Closing by Debevoise & Plimpton, counsel to the Funds, of an opinion as to certain tax matters. At each Closing for a Fund, subscriptions will be accepted and investors will be admitted to such Fund as Limited Partners of such Fund.

For investment purposes and on the same terms and conditions as other investors, Equitable Capital, MLPF&S or affiliates thereof may subscribe for up to 10,000 Units (but not, with respect to a Fund, for more than 15% of the Units subscribed for in such Fund) in order to satisfy the 75,000 Unit minimum. Equitable Capital, MLPF&S and certain affiliates or related persons of either will not pay a sales commission in connection with any purchase of Units.

Equitable Capital, MLPF&S and the Funds may decide to stop accepting subscriptions for Units at any time after subscriptions for at least 75,000 Units and not more than 1,000,000 Units have been received. See "Offering and Sale of Units".

All payments for subscriptions must be made: (1) for subscriptions solicited by MLPF&S, by authorization to MLPF&S for debiting of the subscriber's customer securities account, (2) for subscriptions solicited by certain Selected Dealers whose accounts are cleared through Broadcast Capital Corporation ("BCC"), an affiliate of MLPF&S, by authorization to such Selected Dealer and BCC for debiting of the subscriber's customer securities account and (3) for subscriptions solicited by other Selected Dealers, by check payable to the order of "Security Pacific National Trust Company (New York) — Escrow Agent". All checks received by any Selected Dealers will be placed promptly in the escrow account. Each subscriber who authorizes MLPF&S to debit his, her or its customer account will be notified of the settlement date therefor which will occur not later than five business days following notification to MLPF&S of the acceptance of the subscription and not later than the Termination Date. Each

subscriber whose account will be debited must have the subscription payment in his, her or its account on the specified settlement date and each such account will be debited on the settlement date and the funds debited therefrom placed in the escrow account. A subscriber's payment will be promptly returned in full, together with such subscriber's pro rata share of any net interest earned thereon, if such subscription is not accepted by a Fund. See "Offering and Sale of Units".

**Investor Suitability Standards:**

Each Fund has adopted, as a minimum investor suitability standard, the requirement that each subscriber for Units (a) have a net worth (exclusive of homes, home furnishings and personal automobiles) of not less than \$150,000 in excess of the price of Units subscribed for, or (b) have a net worth (exclusive of homes, home furnishings and personal automobiles) of not less than \$60,000 in excess of the price of Units subscribed for, and expect to have in the current and next three taxable years, gross income from all sources in excess of \$60,000, provided that in the case of sales to fiduciary accounts, the suitability standard shall be satisfied by the fiduciary, the fiduciary account or by the person who directly or indirectly supplies the funds for the purchase of Units. Residents of certain states will be required to meet the suitability standards established by those states. See "Offering and Sale of Units—Investor Suitability Standards" and Exhibit C to this Prospectus.

**How to Subscribe:**

(1) MLPF&S may allow its customers to subscribe without executing the Subscription Qualification and Acceptance Page; however, Selected Dealers and, in some states, MLPF&S will require the prospective investor to complete, date and deliver to the investor's MLPF&S Financial Consultant or a Selected Dealer a copy of a Subscription Qualification and Acceptance Page attached as part of the Subscription Agreement which is attached as Exhibit B to this Prospectus.

(2) The prospective investor must (a) assure that his, her or its account with MLPF&S (or if such investor's customer securities account is with a Selected Dealer whose accounts are cleared through Broadcort Capital Corporation, an affiliate of MLPF&S, that such account) contains or will contain cash or other good funds on the specified settlement date or (b) deliver to any other Selected Dealer a check payable to the order of "Security Pacific National Trust Company (New York)—Escrow Agent", in the amount of \$1,000 (or the discounted amount in the case of purchases of 500 or more Units or by certain affiliates or related persons of Equitable Capital or MLPF&S) for each Unit that the prospective investor desires to purchase, as adjusted to reflect any increase or decrease in the public offering price based on changes in the net asset value of Units after the first Closing.

(3) Tax-Exempt Investors may only subscribe for Units in the Enhanced Yield Retirement Fund. All other investors may only subscribe for Units in the Enhanced Yield Fund.

**Subject to acceptance of the investor's subscription for Units in a Fund, payment for the Units purchased shall constitute the investor's agreement to the terms and conditions of the Subscription Agreement and the Partnership Agreement of such Fund and authority to the General Partners to execute the Subscription Agreement and the Partnership Agreement of such Fund on behalf of the investor.**

**Defined Terms:**

All capitalized terms not otherwise defined in this Prospectus have the meanings set forth in the form of Partnership Agreement which is attached as Exhibit A to this Prospectus.

## RISK AND OTHER IMPORTANT FACTORS

The purchase of Units involves a number of significant risk and other important factors relating to investments in limited partnerships generally, and relating to the structure and investment objective of the Funds in particular. As a result of these risks and factors, there can be no assurance that a Fund will be able to carry out its investment program successfully. In addition to the factors hereunder, prospective investors should also consider the information set forth under "Conflicts of Interest" elsewhere in this Prospectus.

### A. General Risks of Investment in the Funds

#### 1. Nature of Investments

While investments in highly leveraged companies through Enhanced Yield Investments offer the opportunity for current income and capital appreciation, such investments involve a high degree of risk and can result in substantial losses of principal and interest. Further, many Portfolio Companies are created for specific transactions and may have no operating history. The Funds anticipate that the Portfolio Companies will be highly leveraged as a result of the Fund's Enhanced Yield Investments, as well as debt instruments issued to other participants in the transaction, and generally may be expected to have a total debt to equity ratio in excess of 5:1. In the event any such Portfolio Company cannot generate adequate cash flow to meet debt service, all or part of the principal of such company's debt may not be repaid and, in such event, the value of a Fund's equity participation will be diminished.

In addition, due to the level of leverage utilized, other general business risks, such as labor problems, casualty losses, increases in operating expenses, disputes with suppliers or customers and other problems that require additional company resources will have a more aggravated effect. The effects of a recession may have a more pronounced effect on the profitability of such highly leveraged companies as well. Profits of such companies may tend to decrease during a recession, which would result in a decrease in the value of a Fund's investment. In addition, many such companies tend to be less diversified than other companies.

A Fund's investments will generally consist of subordinated debt and equity securities issued by Portfolio Companies that have also issued senior debt. The payment of any amounts due on a Fund's investment will, therefore, generally be subject to the payments due, if any, on debt senior to such Fund's Mezzanine Investment. Further, since senior debt typically bears interest at a floating rate, while mezzanine debt typically does not, increased interest rates would shift more of a company's available funds to the senior lenders and less to the holders of Mezzanine Investments such as a Fund. Such a shift will tend to decrease the amount realized on a Fund's investment.

A Fund's Other Investments, which are limited to 10% of its Available Capital, may include investments in financially troubled companies, including companies in workouts or whose outstanding debts have been restructured. The sensitivity of such companies to general economic conditions, such as recessions or changes in interest or inflation rates, fluctuations in local or general business conditions, increases in operating expenses, work stoppages or other labor disputes or disputes with suppliers or customers, will be heightened due to such financial troubles.

Furthermore, since a Fund will generally invest in less than investment grade or in unrated securities, the financial risks associated with its investments will be heightened. A Fund's investments will be made generally in unrated securities purchased in private placements. Equitable Capital believes that if rated such securities would be classified as speculative and generally would be of the type rated BB/Ba to CCC/Caa. See Appendix I for a description of ratings by major rating agencies.

In addition, while the Funds will not finance a hostile transaction (*i.e.*, one opposed by the board of directors of the business that is the subject of the transaction) the Funds may participate in a transaction approved by the board of directors of a company which is subject to a competing hostile bid. In such event, the Funds may be subject to additional expenses, including those relating to litigation concerning the transaction.

## *2. Bridge Investments*

A Fund may be the sole lender in a Bridge Investment. In such case a Fund's exposure with respect to a Portfolio Company would be substantial. No assurance can be given that a Bridge Investment will be retired by permanent financing upon such investment's maturity. In instances where a Fund makes a Bridge Investment in a Portfolio Company which is not retired by permanent financing, the increasing interest rate that may be charged on such Bridge Investment may adversely affect the company's ability to pay its debts. Substantial investments by the Funds in Bridge Investments may constitute a greater risk than investments in Mezzanine and Other Investments because a greater percentage of a Fund's Available Capital may be invested in any single Bridge Investment than in any single Mezzanine or Other Investment. See "Conflicts of Interest".

Even if a Fund has not made a Bridge Investment in a leveraged transaction, the existence of bridge or interim financing in such a transaction in which a Fund has made a Mezzanine Investment will subject such Mezzanine Investment to certain risks. If the bridge financing cannot be retired by permanent financing, the increasing interest rate that may be charged may adversely affect the company's ability to pay its debts, including the debt component of such Mezzanine Investment and may affect the future value of any equity component of such Mezzanine Investment.

## *3. Time Required to Maturity of Investment; Limitations on Current Distributions; Liquidity of Investments*

It is anticipated that there may be a significant period of time (up to three years) before the Funds have completed the initial selection of their Enhanced Yield Investments in Portfolio Companies. Such investments may typically take from three to five years from the date of initial investment to reach such a state of maturity that realization on any equity component of a Fund's investments can be achieved. Transaction structures will typically not provide for liquidation of a Fund's Mezzanine Investments prior to that time. In light of the foregoing, it is likely that other than for any current income component of any investment, no significant return from the distributions of the proceeds from the disposition of a Fund's investments will occur until five to ten years from the date of its Final Closing. Furthermore, depending on the availability of Enhanced Yield Investments to Equitable Capital, each Fund may hold all or a significant portion of its assets in Temporary Investments during the three-year Investment Period. To the extent a Fund does not invest in Enhanced Yield Investments within the Investment Period, Limited Partners will receive returns based solely on investments in Temporary Investments. However, if after the two-year Interim Investment Period, less than 65% of a Fund's assets has been invested or committed for investment in Enhanced Yield Investments, such Fund will make a distribution of capital to its Partners (or, in the case of the Enhanced Yield Fund, pay down outstanding debt) so that, after such distribution (or repayment), at least 65% of all remaining assets is invested or committed for investment in Enhanced Yield Investments.

Further, current distributions on the Units will also be affected by the purchase of Enhanced Yield Investments that include zero coupon or other obligations having an original issue discount. The receipt of all or a portion of the interest income accruing on such obligations is deferred, often until maturity. Certain of the Enhanced Yield Investments may include obligations having an original issue discount. Enhanced Yield Investments may also include securities that pay interest or dividends in kind (i.e., in securities) for a period of time. To the extent a Fund purchases securities having an original issue discount or paying interest or dividends in kind, cash distributions will be less than the aggregate income accruing on such Fund's portfolio investments for federal income tax purposes.

It is anticipated that a substantial portion of each Fund's Enhanced Yield Investments will consist of securities that are subject to restrictions on sale by such Fund because they were acquired from the issuer in "private placement" transactions or because such Fund is deemed to be an affiliate of the issuer. Generally, such Fund cannot sell these securities publicly without the expense and time required to register the securities under the Securities Act of 1933 (the "Securities Act") or sell the securities under Rule 144 or other rules under the Securities Act which permit only limited sales under specified conditions. When restricted securities are sold to the public, a Fund may be deemed an "underwriter", or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under that Act.

In addition, practical limitations may inhibit a Fund's ability to liquidate its investments in the Portfolio Companies since in most cases the issues thereof will be privately held and such Fund will own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by securities market conditions, which may be unfavorable for sales of securities of particular issuers or issuers in particular industries. Furthermore, since many or all of such Fund's investments, including its Enhanced Yield Investments and certain Temporary Investments, will be unrated, certain potential buyers who are restricted to making investments in rated securities may not be available to purchase any such investment. The above limitations on liquidity of a Fund's Enhanced Yield Investments could prevent a successful sale thereof, result in delay of any sale or reduce the amount of proceeds that might otherwise be realized. See "Investment Objective and Policies—Valuation".

#### *4. Need for Follow On Investments*

Following an initial investment in Enhanced Yield Investments, a Fund may be called upon to provide additional funds to Portfolio Companies or have the opportunity to increase its investment in a successful situation, e.g., the exercise of a warrant to purchase common stock. See "Investment Objective and Policies". Although the Enhanced Yield Fund may use leverage, subject to the limitations on borrowing set forth below, to make Follow On Investments, there is no assurance that it or the Enhanced Yield Retirement Fund, which may not use leverage, will make Follow On Investments or that either will have sufficient funds to make such investment. Any decision by a Fund not to make a Follow On Investment or any inability on its part to make it may have a substantial negative impact on a company in need of such an investment or may result in a missed opportunity for a Fund to increase its participation in a successful operation and may dilute a Fund's equity interest in or reduce the expected yield on its investment.

#### *5. Leverage*

The Enhanced Yield Fund, but not the Enhanced Yield Retirement Fund, has authority to borrow funds to increase the amount of capital available for investment. The amount and nature of any borrowings will depend upon a number of factors over which Equitable Capital does not have control, including general economic conditions, conditions in the financial markets, and the impact of the financing on the tax treatment of the Limited Partners. While Equitable Capital may "leverage" the Enhanced Yield Fund with borrowings up to 50% of Net Proceeds Available for Investment (as such term is defined under "Estimated Use of Proceeds"), there can be no assurance that debt financing will be available on terms that Equitable Capital considers to be acceptable and in the best interests of the Enhanced Yield Fund. See "Estimated Use of Proceeds" and "Investment Objective and Policies". The Enhanced Yield Fund's permitted borrowing capacity will be reduced by the principal amount of obligations of Portfolio Companies guaranteed by the Enhanced Yield Fund. The inability of the Enhanced Yield Retirement Fund to leverage and the possible unavailability of leverage to the Enhanced Yield Fund might limit the degree of diversification of Enhanced Yield Investments and spreading of risks. In addition, the use of leverage by the Enhanced Yield Fund may result in a relatively lower cost per Unit for its fixed services the cost of which is not related to the amount of assets managed and may affect the rate of return earned by investors in such Fund. See "Estimated Use of Proceeds".

The Enhanced Yield Retirement Fund will not be subject to the risks of leverage but also will not be able to participate in its possible benefits. The allocation of investment opportunities between the Funds is based on Available Capital. The Available Capital of the Enhanced Yield Fund will be increased by any borrowings, while that of the Enhanced Yield Retirement Fund, which may not borrow, will not be similarly increased. As a result, under some circumstances the Enhanced Yield Fund could have capital available for investment at a time when the Enhanced Yield Retirement Fund does not. See "Investment Objective and Policies—Coinvestments" and "Leverage". Accordingly, the Funds may have different portfolio investments.

The use of leverage would exaggerate increases or decreases in the Enhanced Yield Fund's net asset value. Although the use of leverage could permit greater diversification and spreading of risks, it also increases the sensitivity of the Enhanced Yield Fund to adverse developments. The Funds anticipate that

their Enhanced Yield Investments generally will pay interest at fixed rates. However, it is anticipated that the interest rate payable by the Enhanced Yield Fund on a portion of the funds borrowed to fund the Enhanced Yield Investments will be at a floating rate. Therefore, if interest rates were to rise, the Enhanced Yield Fund's cost of leveraging its Enhanced Yield Investments would rise without a concomitant rise in the interest rate receivable by it from its Enhanced Yield Investments. The Enhanced Yield Fund may enter into interest rate "swap" or "cap" agreements to limit the risk of borrowings bearing a floating or variable interest rate. In addition, to the extent leverage is utilized in any particular investment, the lending institution may have rights to participate in certain decisions relating to the management of investments, especially any investments in Portfolio Companies which might default in their debt service payments, and may act in ways adverse to the Enhanced Yield Fund's objectives. Furthermore, to the extent that any financing provides for cross defaults or cross collateralization with respect to the Enhanced Yield Fund's Portfolio Companies, the failure of any Portfolio Company may force the Enhanced Yield Fund to liquidate certain investments prematurely.

Although the Investment Company Act permits the Enhanced Yield Fund to issue multiple classes of senior debt and a single class of limited partnership interests senior to the Units, such Act limits distributions while such securities are outstanding unless certain conditions are satisfied. See "Regulation".

#### *6. Competition for Investments*

The Funds expect to encounter competition from other entities having similar investment objectives. Competitors include other leveraged acquisition partnerships, other business development companies, investment partnerships and corporations, small business investment companies, large industrial and financial companies investing directly or through affiliates and individuals. Some of these competitors may have more experience with investments similar to Enhanced Yield Investments, greater financial resources and more personnel than the Funds and/or Equitable Capital. Moreover, there is no assurance that the frequency of leveraged buyouts and similar transactions will not decrease, thereby reducing the number of available investments. To the extent competition for investments increases or the number of investment opportunities decreases, the yield available to mezzanine investors, such as the Funds, may decrease. Furthermore, to the extent that at the end of the Investment Period available net offering proceeds have not been invested and are, therefore, returned to investors in the Funds, or at the end of the Interim Investment Period funds are returned to investors, the yield to such investors would be reduced since the return of capital would not be accompanied by a refund of any offering and organization expenses paid by the Funds.

Although Equitable Affiliates seek to invest in Enhanced Yield Investments, they will not compete with the Funds since such affiliates, including the Equitable Deal Flow Fund, L.P. (the "Deal Flow Fund") (see "Management of the Funds—Equitable Deal Flow Fund, L.P."), if they purchase such investments, will do so by coinvesting with the Funds in the Enhanced Yield Investments. Enhanced Yield Investments will be allocated among the Funds and the Equitable Affiliates pursuant to a ratio based on the amount of capital each such entity has indicated is available for investment in Mezzanine, Other or Bridge Investments, as the case may be. Further, the Funds will have the right to a significant share of all Enhanced Yield Investments in which Equitable Capital or an Equitable Affiliate invests until each Fund first becomes fully invested. See "Investment Objective and Policies—Coinvestments" and "Conflicts of Interest".

#### *7. Interest Rate and Stock Market Fluctuations; Recent Developments*

Fluctuations in interest rates may have an adverse impact on the Enhanced Yield Fund directly due to the leveraging of its Enhanced Yield Investments and on both Funds indirectly through the effect of interest rate fluctuations on Portfolio Companies. The Funds anticipate that their Enhanced Yield Investments generally will pay interest at fixed rates. However, it is anticipated that the interest rate payable by the Enhanced Yield Fund on a portion of the funds borrowed to fund the Enhanced Yield Investments will be at a floating rate. Therefore, if interest rates were to rise, the Enhanced Yield Fund's cost of leveraging its Enhanced Yield Investments would rise without a concomitant rise in the interest rate receivable by it from its Enhanced Yield Investments.

Although it is anticipated that a Fund's Enhanced Yield Investment in a Portfolio Company will generally bear a fixed rate of interest, the remaining outstanding debt of such company, which is anticipated to be substantial and at least a portion of which will be senior to that of such Fund, may bear interest at floating rates. Therefore, rising interest rates may have an adverse effect on a Portfolio Company and may affect such company's ability to pay principal and interest on such Fund's investment therein.

To the extent the debt portion of the Mezzanine Investment bears interest at a fixed rate (as is generally anticipated), if interest rates generally rise while such Mezzanine Investments are outstanding, investors in the Funds may receive interest income at lower rates than are then prevailing in the market place.

General fluctuations in the prices of securities on the stock markets may affect the value of the investments held by the Funds. Stock market fluctuations may also affect the amount leveraged companies can receive from the sale of certain of their businesses. Such sales may be an important element of the business plan of a leveraged company and serve to reduce the amount of outstanding debt carried by such a company.

Since October, 1987 the stock and bond markets have exhibited unprecedented volatility. Continuing instability in the securities markets may increase the risks inherent in the investment in Enhanced Yield Investments now and in the future. As noted above, the ability of Portfolio Companies to refinance debt portfolio securities may depend on their ability to sell new securities in the public high yield debt market. The recent volatility in the public securities markets has adversely affected the liquidity of public high yield debt. A Portfolio Company which expected to rely on a public high yield debt refinancing strategy may find such strategy more difficult to implement.

In light of such developments, Equitable Capital has adopted an increasingly cautious view toward investment activities with respect to Enhanced Yield Investments and its approach toward pricing securities and transaction values has been altered to reflect recent market events. There can be no assurance that such approach will be successful.

#### *8. Number of Investments; Industrial Concentration*

Each Fund will be limited in the amount of Available Capital it may invest in Mezzanine Investments or Bridge Investments in any one Portfolio Company. Generally, each Fund may not invest more than 10% of its Available Capital in Mezzanine Investments or 20% of its Available Capital in Bridge Investments in a single Portfolio Company. However, with the approval of the Independent General Partners, a Fund may make Mezzanine Investments in up to two Portfolio Companies, utilizing, in each case, up to 20% of its Available Capital, and a Fund may make Bridge Investments in one Portfolio Company utilizing up to 25% of its Available Capital. While these restrictions will limit the exposure of a Fund's capital in any single investment, such Fund's capital will be invested in a limited number of Portfolio Companies (at least eight if such Fund becomes fully invested in Mezzanine and Other Investments) and the financial difficulty on the part of any single Portfolio Company will expose it to a greater risk of loss than would be the case if it were a "diversified" company holding numerous investments.

The Funds are not intended to relate to any particular industry. Neither Fund has, however, adopted any policy limiting the amount of Available Capital that may be concentrated in Portfolio Companies engaged in any one industry. Although Equitable Capital intends to consider concentration in any one or a few industries in reviewing any Enhanced Yield Investment, if the most attractive Enhanced Yield Investments available to Equitable Capital and the Funds over the course of the Investment Period are concentrated in a small number of industries, each Fund's portfolio may become concentrated in those industries. In such event, the Funds would be exposed to the risk of adverse developments in or affecting any single industry to a greater extent than if its investments were dispersed over a variety of industries.



## **B. Federal Income Tax Risks**

### **9. Taxation of the Funds as Corporations**

Neither of the Funds has requested an advance ruling from the Internal Revenue Service (the "IRS") that it will be treated as a partnership for federal income tax purposes. The IRS would likely deny any such request since neither Fund will satisfy all of the requirements contained in published IRS Procedures for obtaining such a ruling. Instead, at each admission of investors as Limited Partners in a Fund, Debevoise & Plimpton, counsel to such Fund, will deliver its opinion that such Fund will be classified as a partnership for federal income tax purposes. Unlike a tax ruling, the opinion of counsel has no binding effect on the IRS and there can be no assurance that the IRS will not challenge the classification of a Fund as a partnership for federal income tax purposes. Moreover, continued eligibility of a Fund for classification as a partnership will depend on no adverse changes of law and such Fund's not becoming a publicly-traded partnership as described below. Since it is not anticipated that either Fund will be eligible for the tax treatment available to investment companies registered as such under the Investment Company Act, a Fund would be required to pay income tax at corporate tax rates on its net income if it were classified as an association taxable as a corporation. In recent years, proposals to classify limited partnerships with interests which are widely held, such as the Funds, as corporations rather than partnerships for federal income tax purposes have been made by the Treasury Department and members of Congress on multiple occasions. Recently, the Code was amended to provide that certain "publicly-traded partnerships" will be classified as corporations for federal income tax purposes. Each Partnership Agreement provides for the applicable Fund to satisfy at least one of certain safe harbors contained in a recent Internal Revenue Service Advance Notice for avoiding classification as a publicly-traded partnership. At each admission of investors as Limited Partners in a Fund, Debevoise & Plimpton, counsel to such Fund, will deliver its opinion that such Fund will not be a publicly-traded partnership. Such opinion will be based on transferability restrictions contained in the Partnership Agreement as of the date thereof. However, there can be no assurance that regulations will not be promulgated or legislation might not be passed at some future date that would cause a Fund to be classified as a corporation or a publicly-traded partnership. In addition, if necessary to avoid conflict with the Employee Retirement Income Security Act of 1974, as amended, the Enhanced Yield Retirement Fund may amend its Partnership Agreement in ways that will increase its risk of classification as a publicly-traded partnership. Each Partnership Agreement provides that in the event it appears likely that the applicable Fund will be classified as a corporation or a publicly-traded partnership for federal income tax purposes, Equitable Capital, as the Managing General Partner, may take such steps as it deems necessary to minimize the adverse tax consequences of such classification. Such steps could include amendment of such Partnership Agreement, reorganization of such Fund as a regulated investment company pursuant to section 851 of the Code, liquidation of such Fund or such other steps as may seem appropriate to Equitable Capital at such time. See "Recent Legislation" under "Certain Federal Income Tax Considerations".

### **10. The Tax Reform Act of 1986**

The Tax Reform Act of 1986 (the "1986 Act") made comprehensive changes to the federal income tax system affecting most individual and corporate taxpayers. Among those changes which may directly or indirectly have bearing on an investment in the Funds are (1) the lowering of marginal tax rates for both individuals and corporate taxpayers; (2) the repeal of the net capital gains deduction for individuals resulting in the taxation in full of capital gains at ordinary income rates; (3) an increase in the alternative tax rate on capital gains for corporations from 28% to 34%; (4) more stringent limitations imposed on the deduction of investment interest; (5) the broadening of the applicability of the alternative minimum tax to both individual and corporate taxpayers; and (6) new limitations imposed on deductibility of losses sustained by limited partnerships and other businesses in which noncorporate taxpayers, personal service corporations and certain closely held corporations do not materially participate. The 1986 Act contains provisions that are subject to varying interpretations, the impact and significance of which may not become certain until further guidance is provided by technical amendments to the 1986 Act, forthcoming Regulations, IRS rulings and procedures and court decisions. See "Income Taxation of the Fund—Limitation of Deductions and Passive Activity Loss Limitation", and "Other Tax Consid-

erations—Capital Gains and Losses, Limitations on Deductibility of Interest and Alternative Minimum Tax” under “Certain Federal Income Tax Considerations”.

Further, the 1986 Act lessened the tax benefits of writing up assets in acquisition transactions relative to prior law. From an economic standpoint, the flow of tax benefits resulting from the write-up of assets in a leveraged transaction generates cash flow to reduce the principal amount of acquisition indebtedness. The 1986 Act may result in a reduction in the number of leveraged transactions consummated and may result in restructuring of such transactions to include less mezzanine indebtedness.

In addition, the 1986 Act imposes new limitations on individuals with respect to the deductibility of miscellaneous expenses, including investment expenses. It is expected that at least a portion and possibly all of the Funds’ expenses will be subject to this limitation and may result in additional taxable income to investors in excess of cash received. See “Income Taxation of the Fund—Deductibility of Operating Expenses and Payments to the General Partners and Investment Adviser” under “Certain Federal Income Tax Considerations”.

#### *11. Tax and ERISA Considerations for Tax-Exempt Investors*

As a result of the Enhanced Yield Fund’s utilization of leverage to finance, refinance or recapitalize its investments, investment in the Enhanced Yield Fund may generate unrelated business taxable income and have other adverse tax consequences for certain pension funds, Keogh plans, individual retirement accounts (“IRAs”), tax-exempt institutions and other tax-exempt investors (collectively “Tax-Exempt Investors”). Accordingly, investment in the Enhanced Yield Fund may not be appropriate for Tax-Exempt Investors. Therefore, the Enhanced Yield Fund is not being offered to such investors. Tax-Exempt Investors wishing to purchase Units may only subscribe for Units of the Enhanced Yield Retirement Fund which will not use leverage. Consequently, it is anticipated that Tax-Exempt Investors will not derive material amounts of unrelated business taxable income as a result of the purchase of Units of the Enhanced Yield Retirement Fund, except to the extent a Tax-Exempt Investor borrows funds to purchase Units. See “Tax and ERISA Considerations for Tax-Exempt Investors”.

#### *12. Enhanced Yield Investments with Original Issue Discount Obligations*

Certain of the Enhanced Yield Investments and Temporary Investments which the Funds purchase may include zero coupon or other obligations having original issue discount. For federal income tax purposes, amortization of original issue discount will be attributable to Partners as interest income even though the Funds do not realize any cash flow as a result of such amortization. While each of the Funds expects that it will have sufficient cash flow to permit it to make annual distributions in the amount necessary to permit Partners to pay all federal income tax liabilities resulting from ownership of interests in such Fund, there can be no assurance that it will be able to do so.

#### *13. Tax Considerations for Foreign Investors*

The tax treatment applicable to a foreign investor who invests in Units in a Fund offered pursuant to this Prospectus is complex, is subject to uncertainty and will vary depending upon the particular circumstances of a particular investor. See “Tax Considerations for Foreign Investors”. Foreign investors should consult their tax advisers with respect to the possible federal, state and local and foreign tax consequences of an investment in a Fund.

#### *14. Omnibus Budget Reconciliation Act of 1987*

On December 22, 1987, The Omnibus Budget Reconciliation Act of 1987 (the “1987 Act”) was enacted. One provision of the 1987 Act taxes as corporations certain “publicly-traded partnerships”. The 1987 Act also provides that a Tax-Exempt Investor’s distributive share of income of a publicly-traded partnership will be treated as unrelated business income regardless of the underlying sources of the partnership’s income. It is not anticipated that either of the Funds will be such a publicly-traded partnership. The 1987 Act also provides for a study, to be completed in 1989, of whether additional changes should be made to the taxation of partnerships. It is impossible to predict whether additional legislation affecting the taxation of partnerships will eventually be enacted or in what form any such legislation may be enacted. The consequences of taxation of the Funds as corporations are discussed

above under "9. Taxation of the Funds as Corporations". ACCORDINGLY, EACH INVESTOR SHOULD CONSULT HIS PERSONAL TAX ADVISOR ABOUT THE EFFECT OF ANY CHANGES IN THE TAX LAW AFTER THE DATE HEREOF.

### **C. Partnership and Contractual Risks**

#### **15. *Reliance on Equitable Capital***

Pursuant to each Investment Advisory Agreement between a Fund and Equitable Capital, each Fund will only make Enhanced Yield Investments recommended by Equitable Capital. Accordingly, an investor in the Units must rely upon the ability of Equitable Capital in identifying, structuring and making Enhanced Yield Investments consistent with such Fund's investment objective and policies. See "Investment Objective and Policies". The investor will not have the opportunity to evaluate personally the relevant economic, financial and other information which will be utilized by Equitable Capital in its selection, structuring, monitoring and disposition of investments and will not receive the detailed financial information issued by Portfolio Companies which is available to the Independent General Partners and Equitable Capital.

Further, all decisions with respect to the management of each Fund will be made exclusively by the Independent General Partners of such Fund and Equitable Capital as Managing General Partner. See "Management Arrangements". Limited Partners have no right or power to take part in the management of such Fund. Accordingly, no person should purchase Units unless such person is willing to entrust the management of the related Fund to Equitable Capital, subject to overall supervision of the Fund's Independent General Partners.

#### **16. *Relations with Sponsors of Leveraged Transactions***

The marketplace for leveraged transactions is becoming increasingly crowded with investment banking firms, bankers and other primary financial institutions acting as sponsors of such transactions. There can be no assurance that the sponsors with whom Equitable Capital has established business relationships will continue to generate mezzanine financing opportunities in the volume previously generated or will continue to direct transactions to Equitable Capital.

#### **17. *No Market for Units***

The Units will only be transferable in accordance with certain restrictions in the Partnership Agreements and may be affected by restrictions on resales imposed by the laws of some states. A Limited Partner may not transfer a Unit unless he, she or it represents and provides documentation satisfactory in form and substance to Equitable Capital that such transfer was not effected through a broker-dealer or matching agent which makes a market in Units or which provides a readily available, regular and ongoing opportunity to Limited Partners to sell or exchange their Units through a public means of obtaining or providing information of offers to buy, sell or exchange Units. In the case of the sale of a Unit in the Enhanced Yield Fund, Equitable Capital must determine that such sale, assignment or transfer will not, by itself or together with any other sales, transfers or assignments, "substantially increase the risk of" such Fund's being classified as a publicly-traded partnership. In the case of the sale of a Unit in the Enhanced Yield Retirement Fund, Equitable Capital must determine that such sale, assignment or transfer would not, by itself or together with any other sales, transfers or assignments, "likely result in" such Fund's being classified as a publicly-traded partnership. A transferor will not be required to make the representations described above if he, she or it represents that the transfer is effected through an agent whose procedures have been approved by Equitable Capital as consistent with the requirements for avoiding classification as a publicly-traded partnership. The Partnership Agreements also prohibit the transfer of Units to certain transferees. See "Transferability of Units". There is presently no public market for the Units, and there are restrictions contained in the Partnership Agreement relating to each Fund which are intended to prevent the development of a public market. Consequently, Limited Partners may not be able to liquidate their investment in the event of emergency or for any other reason. Such factors may also affect the price which a Limited Partner would be able to obtain for Units.

#### 18. *Possible Loss of Limited Liability*

The Partnership Agreement of each Fund provides certain rights for the Limited Partners of a Fund by vote of less than all of such Limited Partners to, among other things, elect General Partners of such Fund, amend the Partnership Agreement, dissolve such Fund, approve certain actions of such General Partners and approve the sale of all or substantially all of such Fund's assets other than in the ordinary course of business. Although under current law in Delaware, the state of each Fund's organization, the exercise of such rights is permitted without resulting in a loss of a Limited Partner's limited liability, in some jurisdictions there is uncertainty under present law as to whether the exercise of these rights under certain circumstances could cause the Limited Partners of a Fund to be deemed to be general partners of such Fund under applicable state laws with a resulting loss of limited liability. If such Limited Partners were deemed to be general partners of such Fund in such jurisdictions, they would be generally liable for the obligations of such Fund (other than nonrecourse obligations), which could be satisfied out of their personal assets.

In order to minimize the risk of general liability, the exercise of these rights, other than such voting rights as may be required by the Investment Company Act, by the Limited Partners of a Fund is subject to either the prior receipt of an opinion of independent counsel to the effect that the existence and exercise of such rights will not adversely affect the status of the Limited Partners as limited partners of such Fund or such Fund's not receiving an opinion of such counsel as to the substantial likelihood of such adverse effect. See "Summary of the Partnership Agreement". It should be noted that due to present and possible future uncertainties in this area of partnership law, it may be difficult or impossible to obtain an opinion of counsel to the effect that such Limited Partners may exercise certain of their rights without jeopardizing their status as limited partners.

#### 19. *Repayment of Certain Distributions*

Under certain circumstances, Limited Partners may be required to repay distributions made to them by the Funds. In addition, Limited Partners may be required to repay to the Fund any amounts distributed which are required to be withheld by such Fund for tax purposes.

#### 20. *Regulation*

Each Fund has elected to be a business development company under the Investment Company Act. Such Act imposes restrictions on the activities of the Funds, including restrictions on the nature of their investments, the use of leverage by the Enhanced Yield Fund and the issuance by them of securities, options, warrants or rights, and requires that a majority of the General Partners of each Fund be individuals who are not "interested persons" of such Fund as defined in the Investment Company Act. Such restrictions may prohibit the purchase of certain Enhanced Yield Investments which would otherwise be suitable for investment by a Fund or render such purchases inadvisable. See "Regulation".

Because there are no judicial and few administrative interpretations of portions of the legislation applicable to the Funds, there is no assurance that the legislation will be interpreted or administratively implemented in a manner consistent with the Funds' objective and intended manner of operation. In the event that the General Partners of a Fund determine that it cannot operate effectively under the Investment Company Act, such General Partners may at some future date decide to withdraw its election as a business development company and transform it into an operating company not subject to regulation under the Act or cause it to liquidate. These changes may not be effected without the approval of the Limited Partners holding a majority of the outstanding Units of such Fund.

## ESTIMATED USE OF PROCEEDS

Set forth below is the estimated application of the gross proceeds of the sale of the Units of each Fund. The tables set forth the estimated application of proceeds of (i) a sale of a minimum number of Units (25,000) necessary for a sale of Units in a single Fund to be completed assuming that the combined minimum (75,000) for the two Funds was met by such a sale and a sale of 50,000 Units of the other Fund, (ii) the sale of the combined minimum and (iii) the sale of the combined maximum assuming, in the case of the sales described in clauses (ii) and (iii) that no sales were made of Units of the other Fund. The table for the Enhanced Yield Fund also assumes that it has borrowed funds in an amount equal to 50% of the amount of Net Proceeds Available for Investment (which is equal to the gross offering proceeds of the Units in the Enhanced Yield Fund less offering and organization expenses). The amount of Net Proceeds Available for Investment plus, in the case of the Enhanced Yield Fund, the principal amount of any debt financing ("Net Funds Available for Investment"), will be available for investment in Enhanced Yield Investments as described herein. The table further assumes that all Units are sold at a public offering price of \$1,000 per Unit. The information set forth is an estimate, and should not be relied upon as a prediction or guaranty of the availability of debt financing on terms acceptable to Equitable Capital or the actual application of the proceeds of this offering. The footnotes are an integral part of the information set forth below.

In the information set forth below, numbers have been rounded, which may result in minor arithmetic inconsistencies.

### The Enhanced Yield Fund

	50% Leverage (1)					
	25,000 Units Sold (Minimum Per Fund)	Percent of Public Offering Price	75,000 Units Sold (Combined Minimum)	Percent of Public Offering Price	1,000,000 Units Sold (Combined Maximum) (2)	Percent of Public Offering Price
Gross Offering Proceeds (3) .....	\$25,000,000	100%	\$75,000,000	100%	\$1,000,000,000	100%
Less Offering Expenses:						
Commissions (4) .....	1,750,000	7.0%	5,250,000	7.0%	70,000,000	7.0%
Marketing Expenses (5) .....	125,000	0.5%	375,000	0.5%	1,750,000	0.2%
Organization and Offering Expenses (6) .....	1,083,300	4.3%	3,250,000	4.3%	4,000,000	0.4%
Net Proceeds of Offering Available for Investment (7) .....	22,041,700	88.2%	66,125,000	88.2%	924,250,000	92.4%
Plus Debt Financing .....	11,020,850		33,062,500		462,125,000	
Net Funds Available for Investment .....	<u>\$33,062,550</u>		<u>\$99,187,500</u>		<u>\$1,386,375,000</u>	

- (1) The Enhanced Yield Fund may borrow an amount equal to up to 50% of the amount of Net Proceeds Available for Investment (as computed pursuant to this table), less any principal returned to its Partners by the close of the previous quarter, for the purpose of making Enhanced Yield Investments. This table assumes for the purposes of calculating Net Proceeds Available for Investment that no such Partner's principal has been returned. The amount of any such borrowings will depend upon a number of factors, including conditions at the time in the financial markets, the impact of the financing on the tax treatment of the Limited Partners of the Enhanced Yield Fund and the terms or conditions offered by prospective lenders. There can be no assurance that the Enhanced Yield Fund will leverage its investments.
- (2) The 1,000,000 maximum is a combined maximum for sales of Units in the Funds. The table assumes that no sales have been made of Units of the Enhanced Yield Retirement Fund in calculating estimated use of proceeds in connection with a combined maximum offering.

- (3) Assumes no discounts in selling commissions.
- (4) Selling commissions, payable to MLPF&S, as selling agent, equal to up to 7% of the public offering price of the sale of the Units (without regard to discounts in selling commissions). See "Offering and Sale of Units—Offering of Units".
- (5) Marketing and sales expense reimbursement, payable to MLPF&S, not to exceed 1/2% of the public offering price of the sale of Units. If the maximum amount of reimbursement to MLPF&S for marketing and sales expenses is paid, such reimbursement would equal \$5,000,000 for a combined maximum offering.
- (6) Includes legal, accounting, printing and other expenses of this offering (including reimbursement to Equitable Capital, the Administrator and affiliates thereof of certain expenses incurred by them on behalf of the Funds in connection with this offering), which are estimated at \$3,250,000 for the 75,000 Unit combined minimum, but in no event shall exceed \$6,000,000. Such expenses will be allocated between the Funds based on the ratio of the number of Units of each Fund sold. The aggregate organization and offering expenses have been allocated in the table set forth above one-third to the Enhanced Yield Fund and two-thirds to the Enhanced Yield Retirement Fund with respect to the 25,000 Unit minimum offering for the Enhanced Yield Fund and have been 100% allocated to the Enhanced Yield Fund with respect to the combined minimum and combined maximum offerings, each allocation in direct proportion to the number of Units assumed in the table set forth above to be sold by each Fund.
- (7) If the maximum allowable marketing and sales expenses are reimbursed as set forth in (5) above, and the maximum allowable organization and offering expenses are paid as set forth in (6) above, then Net Proceeds Available for Investment will be \$21,125,000, \$63,375,000 and \$919,000,000 for a minimum offering, combined minimum offering and combined maximum offering, respectively.

#### The Enhanced Yield Retirement Fund

	25,000 Units Sold (Minimum Per Fund)	Percent of Public Offering Price	75,000 Units Sold (Combined Minimum)	Percent of Public Offering Price	1,000,000 Units Sold (Combined Maximum) (1)	Percent of Public Offering Price
Gross Offering Proceeds(2) .....	\$25,000,000	100%	\$75,000,000	100%	\$1,000,000,000	100%
Less Offering Expenses:						
Commissions(3) .....	1,750,000	7.0%	5,250,000	7.0%	70,000,000	7.0%
Marketing Expenses(4) .....	125,000	0.5%	375,000	0.5%	1,750,000	0.2%
Organization and Offering Expenses(5)...	1,083,300	4.3%	3,250,000	4.3%	4,000,000	0.4%
Net Proceeds of Offering Available for Investment(6) .....	<u>\$22,041,700</u>	<u>88.2%</u>	<u>\$66,125,000</u>	<u>88.2%</u>	<u>\$ 924,250,000</u>	<u>92.4%</u>

- (1) The 1,000,000 maximum is a combined maximum for sales of Units in the two Funds. The table above assumes that no sales have been made of Units of the Enhanced Yield Fund in calculating estimated use of proceeds in connection with a combined maximum offering.
- (2) Assumes no discounts in selling commissions.
- (3) Selling commissions, payable to MLPF&S, as selling agent, equal to up to 7% of the public offering price of the sale of the Units (without regard to discounts in selling commissions). See "Offering and Sale of Units—Offering of Units".
- (4) Marketing and sales expense reimbursement, payable to MLPF&S, not to exceed 1/2% of the public offering price of the sale of Units. If the maximum amount of reimbursement to MLPF&S for marketing and sales expenses is paid, such reimbursement would equal \$5,000,000 for a combined maximum offering.

- (5) Includes legal, accounting, printing and other expenses of this offering (including reimbursement to Equitable Capital, the Administrator and affiliates thereof of certain expenses incurred by them on behalf of the Funds in connection with this offering), which are estimated at \$3,250,000 for the 75,000 Unit combined minimum, but in no event shall exceed \$6,000,000. Such expenses will be allocated between the Funds based on the ratio of the number of Units of each Fund sold. The aggregate organization and offering expenses have been allocated in the table set forth above one-third to the Enhanced Yield Retirement Fund and two-thirds to the Enhanced Yield Fund with respect to the 25,000 Unit minimum offering for the Enhanced Yield Retirement Fund and have been 100% allocated to the Enhanced Yield Retirement Fund with respect to the combined minimum and combined maximum offerings, each allocation in direct proportion to the number of Units assumed in the table set forth above to be sold by each Fund.
- (6) If the maximum allowable marketing and sales expenses are reimbursed as set forth in (4) above, and the maximum allowable organization and offering expenses are paid as set forth in (5) above, then Net Proceeds Available for Investment will be \$21,125,000, \$63,375,000 and \$919,000,000 for a minimum offering, combined minimum offering and combined maximum offering.

## INVESTMENT OBJECTIVE AND POLICIES

### General

The investment objective of the Funds is to provide current income and capital appreciation potential by investing in privately structured, friendly leveraged buyouts, leveraged acquisitions, leveraged recapitalizations and other enhanced yield transactions. Each Fund intends to achieve this objective by investing primarily in subordinated debt and related equity securities issued in conjunction with the mezzanine financing of such transactions. The Funds may also invest in senior debt securities issued in connection with the mezzanine financing of such leveraged transactions. Investments in securities issued in leveraged buyouts, leveraged acquisitions and leveraged recapitalizations are referred to herein as "Mezzanine Investments". The Funds may also invest in debt securities issued in connection with certain other types of corporate transactions. These investments are referred to in the Prospectus as "Other Investments" and are discussed below under "Investment Objective and Policies—Other Investments". The Funds may also provide interim financing ("Bridge Investments") for certain Portfolio Companies as described below under "Investment Objective and Policies—Bridge Investments" and, pending application of funds, may make Temporary Investments, as described below. Mezzanine Investments, Other Investments, Bridge Investments and related Follow On Investments (see "Ongoing Management Support; Follow On Investments" below) are collectively referred to herein as "Enhanced Yield Investments". At least 90% of each Fund's Available Capital (other than that invested in Temporary and Bridge Investments) will be invested in Mezzanine Investments. No more than 10% of each Fund's Available Capital will be invested in Other Investments. The Funds will only invest in friendly transactions in that neither Fund will provide financing for acquisitions opposed by the Board of Directors of the company to be bought out, acquired or recapitalized. The Funds will not invest in new or "start up" businesses although many of their investments will be in newly-formed companies or organizations formed to operate an established business.

There is no assurance that the investment objective of the Funds will be attained.

The investment objective, policies and restrictions of the Funds are identical except that the Enhanced Yield Retirement Fund may not borrow in order to fund or refinance its portfolio investments. This restriction has been imposed on the Enhanced Yield Retirement Fund primarily to avoid the possibility that Tax-Exempt Investors may receive any material amounts of unrelated business taxable income because of any borrowings made to fund the acquisition of investments. In all other respects, the Funds are intended to operate in a parallel manner.

### Mezzanine Investments

Mezzanine Investments represent investments in leveraged buyouts, leveraged acquisitions and leveraged recapitalizations. The amount of leverage employed in a leveraged transaction depends upon the nature of the business acquired and the confidence of investors in the company's ability to generate sufficient cash to meet debt service obligations in a timely fashion. Equitable Capital has, for example, participated in leveraged transactions in which the debt to equity ratio of an acquired company immediately after consummation of the transaction was as low as 3:1 or as high as 20:1. As a result of the substantial leverage employed, the equity portion of each investment offers potential for significant appreciation over time as debt is repaid, but the risks associated with the investment may be significant if the business or prospects of the acquired company decline after the acquisition.

A leveraged buyout is the acquisition of an existing business by a corporation or partnership formed for that purpose and funded with capital provided primarily by public or institutional investors. Leveraged acquisitions involve securities similar to those issued by leveraged buyout companies, the proceeds of the sale of which are used to purchase identified assets or businesses. Leveraged recapitalizations are also a source of Mezzanine Investments for the Funds. A leveraged recapitalization typically involves the issuance of debt securities by a company to finance the purchase of all or a substantial portion of the company's common equity from its shareholders. The increased leverage may be employed as a defensive strategy against unwanted takeovers or to provide liquidity for existing shareholders. This type of transaction does not necessarily involve a merger or acquisition.



Mezzanine Investments will consist principally of subordinated debt and, to some extent, preferred stock, combined in most instances with a contingent interest component or an equity participation (an "equity kicker") offering the potential for capital appreciation. An equity participation may take the form of common stock, convertible preferred stock or other securities exercisable for or convertible into common equity, including options and warrants. In certain instances a Mezzanine Investment may also include a senior debt component. Typically, mezzanine debt will be two to four times the leveraged company's equity. Buyers of mezzanine debt typically would have the right to purchase a substantial portion of the leveraged company's equity (from 5% to 50%). Mezzanine Investments may, however, also include leveraged buyouts and leveraged acquisitions without equity. Leveraged buyout financings without equity are transactions ordinarily involving the purchase of high yield subordinated debt, either directly from the issuer or on the private secondary market.

In addition, to facilitate the acquisition of a Mezzanine Investment each Fund may purchase senior debt or senior subordinated debt which Equitable Capital does not intend will be held by such Fund as part of a permanent Mezzanine Investment. Neither Fund may purchase senior debt or senior subordinated debt that is not a component of a Mezzanine Investment if such purchase would cause more than 15% of such Fund's Available Capital to be invested in such senior debt or more than 15% of such Fund's Available Capital to be invested in such senior subordinated debt. An investment in senior or senior subordinated debt by a Fund will tend both to lower the risk of such Fund's overall portfolio and to lower such Fund's return to investors.

As a general matter, Equitable Capital looks to the following factors in weighing whether to make a Mezzanine Investment: (i) whether the proposed investment will be in a company with experienced, dedicated senior managers who are willing to commit their own capital to purchase equity; (ii) whether a proposed investment is in a company with a substantial and sustainable revenue base, a history of profitability, and a strong asset base or a reasonable expectation of strong cash flow resulting from either a secure niche in its market, or has another identifiable competitive advantage; and (iii) whether the proposed purchase price is generally in line with industry and market averages. A premium price may be paid in an exceptional case where all other investment criteria are met and the company demonstrates extraordinary strength in management and outstanding business characteristics.

#### **Other Investments**

Each of the Funds may invest up to 10% of its Available Capital in the debt and equity securities of financially troubled companies undergoing workouts, recapitalizations or restructurings, in securities of highly leveraged companies issued other than in the context of a leveraged transaction and in securities issued in non-leveraged buyouts, recapitalizations or acquisitions. Investments in companies experiencing financial or operating difficulties may be in companies undergoing restructuring or workouts or in bankruptcy proceedings which are believed by Equitable Capital to have attractive prospects for recovery or in companies that have experienced more moderate difficulties and whose prospects are expected by Equitable Capital to improve ("turnaround situations"). Debt securities of financially-troubled companies typically sell at substantial discounts from face value. The securities purchased as part of an Other Investment will be typically rated below investment grade, and more frequently, not rated at all and, along with equity securities of such companies, will have significant speculative characteristics.

#### **Temporary Investments**

Pending investment in Enhanced Yield Investments, each Fund will invest its available funds in U.S. Treasury securities and/or certificates of deposit with maturities of less than one year. Temporary investments may also include commercial paper (rated or unrated) and other short-term securities. Temporary Investments constituting cash, cash items, securities issued or guaranteed by the U.S. Treasury or U.S. government agencies and high quality debt securities with maturities of less than one year at the time of investment will qualify for determining whether a Fund has 70% of its assets invested in Managed Companies or in qualified Temporary Investments for purposes of the business development company provisions of the Investment Company Act. See "Managed Company Transactions" and "Regulation" below.

Each Fund expects that substantially all of its available funds will be invested in Enhanced Yield Investments by the end of such Fund's three year investment period referred to below. However,